THE INSURANCE COMPANY OF PRINCE EDWARD ISLAND

Annual Report
2013

THE Insurance Company
of Prince Edward Island

People you know you can trust

RESPONSIBILITY FOR FINANCIAL STATEMENTS

The financial statements are the responsibility of Management and have been prepared in conformity with International Financial Reporting Standards. In the opinion of Management, the financial statements fairly reflect the financial position, results of operations and cash flows of The Insurance Company of Prince Edward Island (the Corporation) within reasonable limits of materiality.

Preparation of financial information is an integral part of Management's broader responsibilities for the ongoing operations of the Corporation. Management maintains an extensive system of internal accounting controls to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements. The adequacy and operation of the control systems are monitored on an ongoing basis by an internal audit department.

An actuary has been appointed by the Corporation to carry out a valuation of the policy liabilities and to issue a report thereon to the shareholders and regulatory authorities. The valuation is carried out in accordance with accepted actuarial practice and common Canadian insurance regulatory requirements. The policy liabilities consist of a provision for unpaid claim and adjustment expenses on the earned portion of policies and of future obligations on the unearned portion of policies. In performing this valuation, the actuary makes assumptions as to future rates of claim frequency and severity, inflation, reinsurance recoveries, expenses and other contingencies, taking into consideration the circumstances of the Corporation and the nature of the insurance policies. The actuary also makes use of Management information provided by the Corporation and the work of the external auditors in verifying the data used in the valuation.

The financial statements have been examined and approved by the Board of Directors. An Audit Committee, composed of members of the Board of Directors, meets periodically with financial officers of the Corporation and the external auditors. These external auditors have free access to this Committee, without Management present, to discuss the results of their audit work and their opinion on the adequacy of internal financial controls and the quality of financial reporting.

PricewaterhouseCoopers have been appointed external auditors. Their responsibility is to report to the shareholders and regulatory authorities regarding the fairness of presentation of the Corporation's financial position and results of operations as shown in the financial statements. In carrying out their audit, the external auditors also make use of the work of the actuary and her report on the policy liabilities. The Auditor's Report outlines the scope of their examination and their opinion.

Charlie Cooke
President

Jeff Stepan
Chief Financial Officer

February 24, 2014

ACTUARY'S REPORT

To the Shareholders of The Insurance Company of Prince Edward Island

I have valued the policy liabilities and reinsurance recoverables of The Insurance Company of Prince Edward Island for its statement of financial position at December 31, 2013, and their change in the statement of operations for the year then ended in accordance with accepted actuarial practice in Canada, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities, net of reinsurance recoverables, makes appropriate provision for all policyholder obligations, and the financial statements fairly present the results of the valuation.

Barb Addie
Baron Insurance Services Inc.
Fellow, Canadian Institute of Actuaries
Fellow, Casualty Actuarial Society

February 24, 2014

INDEPENDENT AUDITOR'S REPORT

February 24, 2014

To the Shareholders of The Insurance Company of Prince Edward Island

We have audited the accompanying financial statements of The Insurance Company of Prince Edward Island (the Company), which comprise the statement of financial position as at December 31, 2013 and the statements of operations, changes in shareholders' equity and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2013 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matter

The financial statements of the Company for the year ended December 31, 2012 (prior to the restatement of the comparative information described in Note 4 to the financial statements) were audited by another auditor who expressed an unmodified opinion on those statements on February 14, 2013.

PricewaterhouseCoopers LLP

Chartered Accountants

STATEMENT OF FINANCIAL POSITION

	December 31 2013	December 31 2012 (restated note 4)
Assets	(thousands of $)	
Cash and cash equivalents (note 5)	$ 2,853	$ 3,739
Accounts receivable (note 6)	11,347	10,652
Investments under security lending program (note 7)	7,161	2,748
Investments (note 7)	25,884	26,767
Reinsurers' share of unearned premiums (note 10)	502	434
Unpaid claims recoverable from reinsurers (note 8)	4,447	4,326
Property and equipment	22	23
Deferred policy acquisition costs (note 9)	2,873	2,769
Deferred income tax asset (note 13)	438	577
	$ 55,527	$ 52,035
Liabilities		
Accounts payable and accrued liabilities	$ 4,317	$ 5,639
Notes payable (note 19)	825	933
Amounts due to reinsurers	314	6
Unearned reinsurance commissions	154	122
Unearned premiums (note 10)	13,129	12,669
Provision for unpaid claims (note 8)	21,565	18,812
Deferred income tax liability (note 13)	67	67
	40,371	38,248
Shareholders' equity		
Share capital (note 11)	4,800	4,800
Retained earnings	10,356	8,987
Total equity	**15,156**	13,787
	$ 55,527	$ 52,035

Contingencies (note 21)

The accompanying notes are an integral part of these financial statements.

Approved by the Board of Directors and signed on their behalf on February 24, 2014

Andrew R. Cartmell
Director

Don Thompson
Director

STATEMENT OF OPERATIONS

For the years ended December 31	2013	2012 (restated note 4)
	(thousands of $)	
Gross premiums written	$ 26,061	$ 25,161
Premiums ceded to reinsurers	(1,926)	(1,938)
Net premiums written	24,135	23,223
Change in net unearned premiums (note 10)	(392)	(750)
Net premiums earned	**23,743**	22,473
Net claims incurred (note 8)	14,752	10,705
Commissions	4,517	4,501
Administrative expenses	3,337	3,157
Premium taxes	935	906
Facility Association participation (note 20)	(331)	(318)
Total claims and expenses	**23,210**	18,951
Underwriting profit	**533**	3,522
Investment earnings (note 12)	1,436	957
Income before income taxes	**1,969**	4,479
Income tax expense (note 13)	567	1,279
Net income and comprehensive income	**$ 1,402**	$ 3,200

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31	2013	2012 (restated note 4)
	(thousands of $)	
Share capital		
Balance, end of year	**$ 4,800**	$ 4,800
Retained earnings		
Balance, beginning of year	$ 8,987	$ 5,828
Net income and comprehensive income	1,402	3,200
Dividends (note 11)	(33)	(41)
Balance, end of year	**$ 10,356**	$ 8,987
Total shareholders' equity	**$ 15,156**	$ 13,787

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the years ended December 31	2013	2012 (restated note 4)
	(thousands of $)	
Cash provided by (used for):		
Operating activities		
Net income and comprehensive income	$ 1,402	$ 3,200
Non-cash items:		
Bond amortization	138	153
Depreciation	10	9
Net realized gain on sale of investments	(362)	(142)
Net unrealized gain on change in market value of investments	(215)	(72)
Deferred income taxes	139	(12)
Change in non-cash operating items (note 16)	1,243	1,203
	2,355	4,339
Investing activities		
Purchases of investments	(55,339)	(24,203)
Proceeds on sale of investments	52,248	21,424
Purchases of property and equipment	(9)	(21)
	(3,100)	(2,800)
Financing activities		
Dividends paid	(33)	(41)
Repayment of note payable	(108)	(106)
	(141)	(147)
Increase (decrease) in cash and cash equivalents	**(886)**	1,392
Cash and cash equivalents, beginning of year	3,739	2,347
Cash and cash equivalents, end of year	**$ 2,853**	$ 3,739
Supplemental cash flow information:		
Interest received	$ 575	$ 650
Dividends received	$ 18	$ 18
Income taxes paid	$ 897	$ 99

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

1. STATUS OF THE CORPORATION

The Insurance Company of Prince Edward Island was incorporated under *The Insurance Company of Prince Edward Island Act* on May 14, 1987. The Corporation is licensed to conduct business in Prince Edward Island, New Brunswick and Nova Scotia and holds provincial insurers' licenses under the *Insurance Act* (PEI), the *Insurance Act* (New Brunswick) and the *Insurance Act* (Nova Scotia). The address of the Corporation's registered office is 14 Great George Street, Charlottetown, Prince Edward Island, Canada.

The Corporation's automobile insurance premium rates are regulated by provincial government authorities. Regulation of premium rates is based on claims and other costs of providing insurance coverage, as well as projected profit margins. Regulatory approvals can limit or reduce premium rates that can be charged, or delay the implementation of changes in rates. The Corporation s automobile insurance premiums represent approximately 67% (2012 - 67%) of the Corporation's net premiums earned.

As a 75% owned subsidiary of SGI CANADA Insurance Services Ltd., the financial results of the Corporation are included in its consolidated financial results and ultimately consolidated into the financial statements of Crown Investments Corporation of Saskatchewan.

2. BASIS OF PREPARATION

Statement of compliance

The financial statements for the year-ended December 31, 2013, have been prepared in accordance with International Financial Reporting Standards (IFRS). References to IFRS are based on Canadian Generally Accepted Accounting Principles (GAAP) for publicly accountable enterprises as set out in Part 1 of the CPA Canada Handbook. Part 1 of the CPA Canada Handbook incorporates IFRS as issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

Basis of measurement

The financial statements have been prepared using the historical cost basis, except for financial instruments and the provision for unpaid claims and unpaid claims recoverable from reinsurers. The methods used to measure the values of financial instruments are discussed further in note 3. The provision for unpaid claims and unpaid claims recoverable from reinsurers are measured on a discounted basis in accordance with accepted actuarial practice (which in the absence of an active market provides a reasonable proxy of fair value).

Statement of Financial Position classification

The Statement of Financial Position has been prepared on a non-classified basis in order of liquidity, with a distinction based on expectations regarding recovery or settlement within 12 months after the balance sheet date (current) and more than 12 months after the balance sheet (non-current), presented in the notes.

Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Corporation's functional and presentation currency.

Use of estimates and judgment

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and changes in estimates are recorded in the accounting period in which they are determined. The most significant estimation processes are related to the actuarial determination of the provision for unpaid claims (note 8) and income taxes (note 13).

3. SIGNIFICANT ACCOUNTING POLICIES

Financial assets and liabilities

The measurement basis for financial assets and financial liabilities depends on whether the financial assets and liabilities have been classified as fair value through profit and loss, available for sale, held to maturity, loans and receivables, or other financial liabilities. Financial assets and liabilities classified as fair value through profit and loss are measured at fair value and changes in fair value are recognized in net income. Financial assets classified as available for sale are measured at fair value with unrealized changes in fair value recorded in other comprehensive income (OCI); however, unrealized losses on investments that show objective evidence of impairment are recognized as a decrease to net income. Financial assets designated as held to maturity or loans and receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment losses, if any. Other financial liabilities are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method. The Corporation has no financial assets and liabilities designated as available for sale or held to maturity.

The Corporation has designated its cash and cash equivalents and investments as fair value through profit and loss. Accounts receivable are designated as loans and receivables. Accounts payable and accrued liabilities and notes payable are designated as other financial liabilities. Unpaid claims recoverable from reinsurers, amounts due to reinsurers, and the provision for unpaid claims are exempt from the above requirement.

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and liabilities simultaneously. Income and expenses are not offset in the Statement of Operations unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Corporation. There are no financial assets and financial liabilities reported as offset in these financial statements.

Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. All fair value measurements relate to recurring measurements. Fair value measurements for investments are categorized into levels within a fair value hierarchy based on the nature of the valuation inputs (Level 1, 2 or 3).

The three levels are based on the priority of inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). An asset's or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. The input levels are defined as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities

The Corporation defines active markets based on the frequency of valuation and any restrictions or illiquidity on disposition of the underlying investment and trading volumes. Assets measured at fair value and classified as Level 1 include Canadian and U.S. common shares, and pooled equity funds. Fair value is based on market price data for identical assets obtained from the investment custodian, investment managers or dealer markets. The Corporation does not adjust the quoted price for such investments.

Level 2: Quoted prices in markets that are not active or inputs that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices)

Level 2 inputs include observable market information, including quoted prices for assets in markets that are considered less active. Assets measured at fair value and classified as Level 2 include short-term investments, bonds and debentures, and the pooled mortgage fund. Fair value for the short-term investments and bonds and debentures is based on or derived from market price data for same or similar instruments obtained from the investment custodian, investment managers or dealer markets. Fair value for the pooled mortgage fund is determined based on the market values of the underlying mortgage investments, calculated by discounting scheduled cash flows through to the estimated maturity of the mortgages, subject to adjustments for liquidity and credit risk.

Level 3: Unobservable inputs that are supported by little or no market activity and are significant to the estimated fair value of the assets or liabilities

Level 3 assets and liabilities would include financial instruments whose values are determined using internal pricing models, discounted cash flows methodologies, or similar techniques that are not based on observable market data, as well as instruments for which the determination of estimated fair value requires significant management judgment or estimation. The Corporation has no financial assets or liabilities considered level 3.

The fair value of other financial assets and financial liabilities is considered to be the carrying value when they are of short duration or when the investment's interest rate approximates current observable market rates. Where other financial assets and financial liabilities are of longer duration, then fair value is determined using the discounted cash flow method using discount rates based on adjusted observable market rates. The fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, notes payable, and premium taxes payable approximate their carrying values due to their short-term nature.

Investments

The Corporation records its investment purchases and sales on a trade-date basis, being the date when the transactions are entered into. Financial assets are derecognized when the rights to receive cash flows from them have expired, or when the Corporation has transferred substantially all risks and rewards of ownership.

Investments under securities lending program

Securities lending transactions are entered into on a collateralized basis. The securities lent are not derecognized on the Statement of Financial Position given that the risks and rewards of ownership are not transferred from the Corporation to the counterparties in the course of such transactions. The securities are reported separately on the Statement of Financial Position on the basis that the counterparties may resell or re-pledge the securities during the time that the securities are in their possession.

Securities received from counterparties as collateral are not recorded on the Statement of Financial Position given that the risks and rewards of ownership are not transferred from the counterparties to the Corporation in the course of such transactions.

Investment earnings

The Corporation recognizes interest and premium financing revenue as earned, dividends when declared, pooled fund revenue when a distribution is declared, realized gains and losses on investments when the investment has been sold and unrealized gains and losses based on the changes in market value of the investments held at the year-end date.

Interest revenue includes amortization of any premium or discount recognized at the date of purchase of the security. Amortization is calculated using the effective interest method. Realized gains and losses represent the difference between the amounts received through the sale of investments and their respective cost base. Interest is generally receivable on a semi-annual basis.

Direct investment expenses, such as external custodial, investment management and investment consultant expenses, are recorded against investment earnings.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currency are translated at the exchange rate in effect at the year-end date. Revenues and expenses are translated at the exchange rate in effect at the transaction date. Unrealized foreign exchange gains and/or losses arising on monetary and non-monetary investments designated as fair value through profit and loss are recognized in investment earnings. Unrealized gains and/or losses arising on translation are charged to operations in the current year. Translation gains and/or losses related to other financial assets and liabilities are charged to operations in the current year.

Premiums written

The Corporation's policies have all been classified upon inception as insurance contracts. An insurance contract is a contract that transfers significant insurance risk and, upon the occurrence of the insured event, causes the insurer to make a benefit payment to the insured party. The sale of policies generates premiums written and are taken into income as net premiums earned over the terms of the related policies, no longer than 12 months. The portion of the policy premiums relating to the unexpired term of each policy is recorded as an unearned premium liability on the Statement of Financial Position.

At the end of each reporting period, a liability adequacy test is performed, in accordance with IFRS, to validate the adequacy of unearned premiums and deferred policy acquisition costs. A premium deficiency would exist if unearned premiums are deemed insufficient to cover the estimated future costs associated with the unexpired portion of written insurance policies. A premium deficiency would be recognized immediately as a reduction of deferred policy acquisition costs to the extent that unearned premiums plus anticipated investment income is not considered adequate to cover all deferred policy acquisition costs and related insurance claims and expenses. If the premium deficiency is greater than the unamortized deferred policy acquisition costs, a liability is accrued for the excess deficiency.

Provision for unpaid claims

The provision for unpaid claims represents an estimate of the total cost of outstanding claims to the year-end date. The estimate includes the cost of reported claims, and claims incurred but not reported, and an estimate of adjustment expenses to be incurred on these claims and a provision for adverse deviation (PFAD) in accordance with Canadian Institute of Actuaries standards. The estimates are necessarily subject to uncertainty and are selected from a range of possible outcomes. During the life of the claim, adjustments to the estimates are made as additional information becomes available. The change in outstanding losses plus paid losses is reported as claims incurred in the current year.

Deferred policy acquisition costs

Premium taxes, commissions and certain underwriting and policy issuance costs are deferred, to the extent they are recoverable, and charged to expense over the terms of the insurance policies to which such costs relate, no longer than 12 months.

Reinsurance ceded

The Corporation uses various types of reinsurance to limit its maximum insurance risk exposure. Estimates of amounts recoverable from reinsurers in respect of insurance contract liabilities and their share of unearned premiums are recorded as reinsurance assets on a gross basis in the Statement of Financial Position. Unpaid claims recoverable from reinsurers, reinsurers' share of unearned premiums and unearned reinsurance commissions are estimated in a manner consistent with the method used for determining the provision for unpaid claims, unearned premiums and deferred policy acquisition costs respectively. Insurance ceded does not relieve the Corporation of its primary obligation to policyholders.

Income taxes

The Corporation uses the asset and liability method of accounting for income taxes. Income taxes are comprised of both current and deferred taxes. Income taxes are recognized in the Statement of Operations.

Current income taxes are recognized as estimated income taxes for the current year. Deferred income tax assets and liabilities consist of temporary differences between tax and accounting bases of assets and liabilities, as well as the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. A valuation allowance is recorded against any deferred income tax asset if it is probable that the asset will not be realized, probable being defined as more likely than not.

Cash and cash equivalents

Cash and cash equivalents consist of money market investments with a maturity of 90 days or less from the date of acquisition, and are presented net of cash on hand, less outstanding cheques.

Property and equipment

All classes of property and equipment are recorded at cost less accumulated depreciation and accumulated impairment, if any. Cost includes expenditures that are directly attributable to the acquisition of the asset.

The Corporation has not incurred any borrowing costs attributable to property and equipment and therefore no borrowing costs have been capitalized. Subsequent costs are included in the assets' carrying value when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost of the item can be reliably measured. Repairs and maintenance are charged to the Statement of Operations in the period in which they have been incurred.

The depreciation method being used, the useful lives of the assets and the residual values of the assets are reviewed at each reporting date.

Depreciation is recorded in operations on a straight-line basis, commencing in the year the asset is available to be placed in service, over the estimated useful lives as follows:

Computer hardware and other equipment	3-5 years
Leasehold improvements	5 years

Impairment reviews are performed when there are indicators that the carrying value of an asset may exceed its recoverable amount.

Leased assets

Leases where the Corporation does not assume substantially all of the risks and reward of ownership are classified as operating leases. The payments are expensed as they are incurred.

Provisions and contingent liabilities

Provisions are recognized when the Corporation has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either a payment is not probable or the amount cannot be reasonably estimated.

Adoption of new and amended accounting standards

IFRS 7 – Financial instruments: Disclosures

IFRS 7 was amended in December 2011 to require additional disclosures related to netting arrangements, including rights to off-set associated with an entity's financial assets and financial liabilities. These disclosures are intended to help financial statement users evaluate the impact or potential impacts of these arrangements on an entity's financial position. The Corporation has adopted this amendment on January 1, 2013 and has determined that these additional disclosures do not impact the financial statements.

IFRS 13 – Fair Value Measurement

IFRS 13 defines fair value, sets out a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies to IFRSs that require or permit fair value measurements or disclosures about fair value measurements, except in specified circumstances. The Corporation adopted IFRS 13 on January 1, 2013 on a prospective basis. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Corporation to measure fair value and did not result in any measurement adjustments as at January 1, 2013, however the definition of fair value has been updated.

IAS 1 – Presentation of Financial Statements

IAS 1 was amended in 2011 to require net income and OCI to be presented together either as a single statement of comprehensive income or separate income statement and statement of comprehensive income. The amendment also requires presentation of OCI to segregate comprehensive income items reclassified to net income and the comprehensive income items not reclassified to net income. The Corporation has adopted the amendments to IAS 1 effective January 1, 2013 and has determined that these additional disclosures do not impact the financial statements.

Annual Improvements 2009-2011 Cycle

Annual improvements 2009-2011 Cycle was issued in May 2012 by the IASB, and included minor amendments to five IFRSs. The annual improvements process is used to make necessary but non-urgent changes to IFRS that are not included in other projects. The Corporation has adopted Annual Improvements 2009-2011 Cycle on January 1, 2013 and has determined that there is no impact to the financial statements.

Future accounting policy changes

The following future changes to accounting standards will have applicability to the Corporation:

IFRS 4 - Insurance Contracts

In June 2013, the IASB published a revised exposure draft (2013 ED) on the accounting for insurance contracts which builds on the previous consultations undertaken in 2007 and 2010. The 2013 ED is the result of deliberations at the IASB using comments received from constituents. The ED continues to propose a new standard on accounting for insurance contracts, which would replace IFRS 4, *Insurance Contracts*. The proposals represent a comprehensive IFRS accounting model for insurance contracts and are expected to have a significant impact on the financial reporting of insurers. A final standard is expected in 2015 with implementation not expected before 2018.

IFRS 9 - Financial Instruments

In November 2009, the IASB issued an exposure draft of IFRS 9, *Financial Instruments*, as part of its plan to replace IAS 39, *Financial Instruments: Recognition and Measurement*.

The new standard requires financial assets to be measured at either fair value or amortized cost, on the basis of the entity's business model for managing the financial asset and the contractual cash flow characteristics of the financial asset. A financial asset that is held by an entity for the purpose of collecting contractual cash flows on specified dates per contractual terms should be measured at amortized cost. All other financial assets should be measured at fair value. For equity instruments, management has an option on initial recognition to irrevocably designate on an instrument-by-instrument basis to present the changes in their fair value directly in equity. There is no subsequent recycling of fair value gains and losses from equity to the Statement of Operations; however, dividends from such equity investments will continue to be recognized in profit or loss.

In November 2012, the IASB issued limited amendments to the exposure draft. The amendments include introduction of a fair value through other comprehensive income (FVOCI) measurement category for simple debt instruments. In this measurement category, the Statement of Financial Position will reflect the fair value carrying amount while amortized cost information is presented in the Statement of Operations. The difference between the fair value and amortized cost information will be recognized in other comprehensive income.

In July 2013, the mandatory effective date for this standard was deferred and is pending the finalization of the impairment and classification and measurement requirements. While early adoption is permitted under the standard, the Office of the Superintendent of Financial Institutions (OSFI) has indicated that early adoption is not allowed. While the Corporation is not federally regulated, it generally follows OSFI's guidance in such matters.

The Corporation is in the process of assessing the impact of the new standard.

IAS 36 – Impairment of Assets - Recoverable Amounts Disclosures for Non-Financial Assets

In May 2013, the IASB issued limited scope amendments to IAS 36. The amendment clarified the requirement to disclose the recoverable amount of an asset (including goodwill) or a cash-generating unit for which a material impairment loss was recognized or reversed during the reporting period. In addition, the amendment requires an entity to disclose the discount rate used in a present value technique that has been used in determining the recoverable amount of an impaired asset on the basis of fair value less costs of disposal. These amendments are effective for annual periods beginning on or after January 1, 2014. Earlier application is permitted. The Corporation does not expect these amendments to impact the financial statements.

Annual Improvements Cycles

In 2012, the IASB issued two exposure drafts for Annual Improvements Cycles 2010-2012 and 2011-2013, which include minor amendments to a number of IFRSs. The annual improvements process is used to make necessary but non-urgent changes to IFRSs that are not included in other projects. The amendments issued are all effective for annual periods beginning January 1, 2014. The Corporation is in the process of assessing the impact of the amendments.

4. PRIOR PERIOD ADJUSTMENT

During the year, the Corporation identified an error with respect to the amount of HST remitted to the Canada Revenue Agency (CRA) related to prior years. As at December 31, 2013, management has determined their best estimate as to the Corporation's exposure related to this finding and has recorded a provision accordingly. The prior year balances and related financial statement note disclosures have been restated as follows:

	(thousands of $)		
	As previously reported	Increase (decrease) due to restatement	Restated
Statement of Operations			
For the year ended December 31, 2012			
Administrative expenses	$ 3,059	$ 98	$ 3,157
Income tax expense	1,307	(28)	1,279
Net income and comprehensive income	3,270	(70)	3,200
Statement of Financial Position			
As at January 1, 2012			
Deferred income tax asset	$ 474	$ 81	$ 555
Accounts payable and accrued liabilites	3,261	290	3,551
Retained earnings	6,037	(209)	5,828
As at December 31, 2012			
Deferred income tax asset	$ 468	$ 109	$ 577
Accounts payable and accrued liabilites	5,251	388	5,639
Retained earnings	9,266	(279)	8,987

5. CASH AND CASH EQUIVALENTS

	(thousands of $)	
	2013	2012
Money market investments	$ 980	$ 45
Cash on hand, net of outstanding cheques	1,873	3,694
Total cash and cash equivalents	$ 2,853	$ 3,739

The average effective interest rate on money market investments is 0.9% (2012 - 0.8%).

6. ACCOUNTS RECEIVABLE

Accounts receivable is comprised of the following:

	(thousands of $)	
	2013	2012
Due from insureds	$ 5,303	$ 5,076
Facility Association (note 20)	2,423	2,351
Due from brokers	1,988	1,857
Due from related parties	712	787
Accrued investment income	172	150
Income taxes receivable	464	-
Due from reinsurers	17	460
Subrogation receivable	315	23
	11,394	10,704
Less: Allowance for doubtful accounts (note 14)	(47)	(52)
Total accounts receivable	$ 11,347	$ 10,652
Current	10,177	9,458
Non-current	1,170	1,194
	$ 11,347	$ 10,652

Included in due from insureds is $5,082,000 (2012 - $4,850,000) of financed premiums receivable, which represents the portion of the policyholders' monthly premium payments that are not yet due. The majority of policyholders have the option to pay a portion of the premium when the policy is placed in force and the balance in monthly instalments. The policyholder pays an additional charge for this option, reflecting handling costs and the investment income that would have been earned on such premium, had the total amount been collected at the beginning of the policy period. The additional charge is recognized in investment earnings using the effective interest method. The effective interest rate is 8.0% (2012 - 8.0%).

Due from brokers includes loans receivable with a carrying value of $582,000 (2012 - $588,000). The loans require annual repayments with terms ranging between one to 10 years. The loans accrue interest at rates ranging from 2.25% to 4.75% (2012 - 2.25% to 4.75%) and are secured by general security agreements. The loans are recorded at their amortized cost, which is considered to be equal to their fair value.

Due from related parties consists of loans provided to certain parties considered related as a result of family relationships with the minority shareholder. All loans are in the normal course of operations. Cumulatively, the loans require equal annual payments of a maximum $120,000, including principal and interest, with terms ranging between one to ten years. The loans accrue interest at rates ranging from 2.25% to 4.75% (2012 - 2.25% to 5.75%) and are secured by general security agreements and personal guarantees from the borrowers. The loans are recorded at their amortized cost, which is considered to be equal to their fair value. During the year, interest revenue of $14,000 (2012 - $13,000) was recorded as investment earnings.

7. INVESTMENTS

The carrying values of the Corporation's investments are as follows:

	(thousands of $)	
	2013	2012
Short-term investments	$ 4,767	$ 1,572
Bonds and debentures	14,473	21,610
Canadian common shares	404	439
Pooled funds:		
Canadian equity	1,316	1,876
United States equity	1,277	633
Non-North American equity	1,264	637
Mortgage	2,383	-
	25,884	26,767
Investments under securities lending program		
Bonds and debentures	7,161	2,748
Total investments	$ 33,045	$ 29,515

Details of significant terms and conditions, exposures to interest rate and credit risks of investments are as follows:

Short-term investments

Short-term investments are comprised of money market investments with a maturity of less than one year but greater than 90 days from the date of acquisition. These investments have an average effective interest rate of 1.0% (2012 - 1.1%) and an average remaining term to maturity of 61 days (2012 - 82 days). The Corporation's investment policy states that investments must meet minimum investment standards of R-1, as rated by a recognized credit rating service.

Holdings for any one issuer, other than the Government of Canada or a Canadian province, are limited to 10% of the market value of the combined short-term investment and bond portfolios.

Bonds and debentures

The Corporation's investment policy states that the minimum quality standard for purchase of bonds and debentures is BBB, as rated by a recognized credit rating service.

The Corporation's investment policy limits its holdings for any one issuer, other than the Government of Canada or a Canadian province, to 10% of the market value of the combined bond and short-term investment portfolios. The holdings for any one province are limited to 20% of the market value of the bond portfolio. No more than 10% of the market value of the bond portfolio shall be invested in securities of foreign issuers.

The carrying value and average effective interest rates are shown in the following chart by contractual maturity. Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

(thousands of $)

Term to maturity (years)	2013 Carrying Value	2013 Average Effective Rates	2012 Carrying Value	2012 Average Effective Rates
Government of Canada:				
One or less	$ -	-	$ 1,586	1.1%
After one through five	7,124	1.7%	8,700	1.4%
Canadian provincial & municipal:				
One or less	458	1.2%	337	1.3%
After one through five	4,359	1.8%	5,259	1.6%
Canadian corporate:				
One or less	855	1.4%	-	-
After one through five	8,838	2.0%	7,506	2.0%
After five	-	-	970	3.7%
Total bonds and debentures	$ 21,634		$ 24,358	

Canadian common shares

Common shares have no fixed maturity dates and are generally not exposed to interest rate risk. The average effective dividend rate is 3.8% (2012 - 4.0%).

Pooled funds

The Corporation owns units in Canadian, United States and non-North American pooled equity funds and a pooled mortgage fund. These pooled funds have no fixed distribution rate. Fund returns are based on the success of the fund managers.

Securities lending program

Through its custodian, the Corporation participates in an investment securities lending program for the purpose of generating fee income. When securities are loaned, the Corporation is exposed to counterparty risk, which is the risk that the borrower will not return the loaned securities, or if the collateral is liquidated, it may be for less than the value of the loan. The Corporation mitigates this risk through non-cash collateral and a guarantee provided by its custodian. Non-cash collateral of at least 102% of the market value of the loaned securities is retained by the Corporation until the loaned securities have been returned. The market value of the loaned securities is monitored on a daily basis with additional collateral obtained or refunded as the market value of the loaned securities fluctuates. In addition, the custodian provides indemnification against any potential losses in the securities lending program. While in the possession of counterparties, the loaned securities may be resold or re-pledged by such counterparties.

At December 31, 2013, the Corporation held collateral of $7,519,000 (2012 - $2,885,000) for the loaned securities.

8. CLAIMS INCURRED AND PROVISION FOR UNPAID CLAIMS

Net claims incurred

(thousands of $)

	2013 Current year	2013 Prior years	2013 Total	2012 Current year	2012 Prior years	2012 Total
Gross claims incurred	$ 15,824	$ (134)	$ 15,690	$ 13,519	$ 220	$ 13,739
Ceded claims incurred	(499)	(439)	(938)	(1,223)	(1,811)	(3,034)
Net claims incurred	$ 15,325	$ (573)	$ 14,752	$ 12,296	$ (1,591)	$ 10,705

Current year claims relate to events that occurred in the current financial year. Prior year claims incurred relate to adjustments for the reassessment of the estimated cost for claim events that occurred in all previous financial periods.

Ceded claims incurred represent an estimate of the recoverable cost of those claims transferred to the Corporation's various reinsurers pursuant to reinsurance contracts (note 14).

Net provision for unpaid claims

	(thousands of $)	
	2013	2012
Net unpaid claims, beginning of year - discounted	$ 14,486	$ 15,606
PFAD and discount, beginning of the year	(678)	(685)
Net unpaid claims, beginning of year - undiscounted	13,808	14,921
Payments made during the year relating to:		
Prior year claims	(3,026)	(3,784)
Prior year Facility Association claims	(439)	(209)
Excess relating to:		
Prior year estimated unpaid claims	(573)	(1,591)
Prior year estimated unpaid Facility Association claims	(151)	(118)
Net unpaid claims, prior years - undiscounted	9,619	9,219
Provision for claims occurring in the current year	6,422	4,150
Provision for Facility Association claims occurring in the current year	466	439
Net unpaid claims, end of year - undiscounted	16,507	13,808
PFAD and discount, end of year	611	678
Net unpaid claims, end of year - discounted	$ 17,118	$ 14,486

The net provision for unpaid claims of $17,118,000 (2012 - $14,486,000) consists of the gross provision for unpaid claims of $21,565,000 (2012 - $18,812,000) less unpaid claims recoverable from reinsurers of $4,447,000 (2012 - $4,326,000).

Management believes that the unpaid claims provision is appropriately established in the aggregate and is adequate to cover the ultimate net cost on a discounted basis. The determination of this provision, which includes unpaid claims, adjustment expenses and expected salvage and subrogation, requires an assessment of future claims development. This assessment takes into account the consistency of the Corporation's claim handling procedures, the amount of information available, the characteristics of the line of business from which the claims arise and the delay inherent in claims reporting. This provision is an estimate and as such is subject to variability that may arise from future events, such as the receipt of additional claims information, changes in judicial interpretation of contracts or significant changes in frequency and severity of claims. This estimate is principally based on the Corporation's historical experience and may be revised as additional experience becomes available. Any such changes would be reflected in the Statement of Operations for the period in which the change occurred.

The provision for unpaid claims and unpaid claims recoverable from reinsurers are carried on a discounted basis to reflect the time value of money. In that respect, the Corporation determines the discount rate based upon the expected return of the bond investments that approximates the cash flow requirements of the unpaid claims. The discount rate applied was 2.0% (2012 - 1.8%). The resulting carrying amount is considered to be an indicator of fair value as there is no ready market for trading insurance contract liabilities.

Net unpaid claims

	(thousands of $)					
	Gross Unpaid Claims		Reinsurance Recoverable		Net Unpaid Claims	
	2013	2012	2013	2012	2013	2012
Provision for reported claims, undiscounted	$ 16,207	$ 13,986	$ 4,236	$ 3,832	$ 11,971	$ 10,154
Provision for claims incurred but not reported	4,570	3,980	34	326	4,536	3,654
PFAD	1,807	1,606	361	327	1,446	1,279
Effects of discounting	(1,019)	(760)	(184)	(159)	(835)	(601)
	$ 21,565	$ 18,812	$ 4,447	$ 4,326	$ 17,118	$ 14,486

9. DEFERRED POLICY ACQUISITION COSTS

	(thousands of $)	
	2013	2012
Deferred policy acquisition costs, at January 1	$ 2,769	$ 2,525
Acquisition costs deferred during the year	4,978	4,854
Amortization of deferred acquisition costs	(4,874)	(4,610)
Deferred policy acquisition costs, at December 31	$ 2,873	$ 2,769

10. UNEARNED PREMIUMS

	(thousands of $)					
	Gross Unearned Premiums		Reinsurer's Share of Unearned Premiums		Net Unearned Premiums	
	2013	2012	2013	2012	2013	2012
Unearned premiums, at January 1	$ 12,669	$ 11,850	$ 434	$ 365	$ 12,235	$ 11,485
Premiums written	26,061	25,161	1,926	1,938	24,135	23,223
Premiums earned	(25,601)	(24,342)	(1,858)	(1,869)	(23,743)	(22,473)
Change in net unearned premiums	460	819	68	69	392	750
Unearned premiums, at December 31	$ 13,129	$ 12,669	$ 502	$ 434	$ 12,627	$ 12,235

11. SHARE CAPITAL

Authorized:

30,000,000 common shares with no par value.

6,000 class A, Series 1 preferred shares with a par value of $100 per share, cumulative dividend paid as determined by the Board of Directors at a rate equal to the five-year Government of Canada bond rate plus 1% per annum adjusted pro rata if redemption takes place prior to the annual anniversary date of issuance. The Corporation may redeem the shares in whole or part at any time for $100 per share. There are no retraction rights.

10,000 class A, Series 2 preferred shares with a par value of $100 per share, cumulative dividend paid as determined by the Board of Directors at a rate equal to the five-year Government of Canada bond rate plus 1% per annum adjusted pro rata if redemption takes place prior to the annual anniversary date of issuance. The Corporation may redeem the shares in whole or part at any time for $100 per share. There are no retraction rights.

2,484,000 class A, Series 3 preferred shares with a par value of $100 per share, no set dividend rate, retraction or redemption rights.

5,000 class B, Series 2 preferred shares with a par value of $100 per share, no set dividend rate, retraction or redemption rights.

2,495,000 class B, preferred shares with a par value of $100 per share, no set dividend rate, retraction or redemption rights.

	(thousands of $)	
Issued and fully paid:	2013	2012
3,000,000 common shares	$ 3,000	$ 3,000
4,000 class A preferred shares, series 1	400	400
10,000 class A preferred shares, series 2	1,000	1,000
4,000 class B preferred shares, series 2	400	400
Total share capital	$ 4,800	$ 4,800

The following summarizes dividends by share classification:

	(thousands of $)			
	2013		2012	
	Dividends in Arrears	Dividends Paid	Dividends in Arrears	Dividends Paid
Class A preferred shares, series 1	$ 11	$ 9	$ 9	$ 12
Class A preferred shares, series 2	27	24	24	29
	$ 38	$ 33	$ 33	$ 41

12. INVESTMENT EARNINGS

The components of investment earnings are as follows:

	(thousands of $)	
	2013	2012
Interest	$ 481	$ 519
Net realized gain on sale of investments	362	142
Pooled fund distributions	225	75
Premium financing	223	199
Net unrealized gain on change in market value of investments	215	72
Dividends	17	17
Total investment earnings	1,523	1,024
Investment expenses	(87)	(67)
Net investment earnings	$ 1,436	$ 957

Details of the net unrealized gain on change in market value of investments is as follows:

	(thousands of $) 2013	2012
Bonds and debentures	$ (192)	$ (148)
Canadian common shares	13	19
Pooled funds:		
Canadian equity	135	87
United States equity	143	41
Non-North American equity	192	73
Mortgage	(76)	-
	$ 215	$ 72

13. INCOME TAXES

The Corporation's provision (recovery) for income taxes is as follows:

	(thousands of $) 2013	2012 (restated note 4)
Current	$ 428	$ 1,291
Deferred	139	(12)
Income tax expense	$ 567	$ 1,279

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates to income before income taxes.

The reasons for the differences are as follows:

	(thousands of $) 2013	2012 (restated note 4)
Income before income taxes	$ 1,969	$ 4,479
Combined federal and provincial tax rate	29.16%	28.72%
Computed tax expense based on combined rate	$ 574	$ 1,286
Increase (decrease) resulting from:		
Investment earnings not subject to taxation	(9)	(19)
Changes in enacted tax rates	(10)	1
Non-deductible expenses for tax purposes	14	8
Other	(2)	3
Total income tax expense	$ 567	$ 1,279

The combined federal and provincial tax rate is calculated by taking the federal tax rate added to the tax rate of the individual provinces on a pro-rata basis. During 2013 there has been an increase in the combined tax rates to 29.16% from 28.72%, primarily as a result of an increase in the provincial rate for New Brunswick from 10% to 12% effective July 1, 2013.

All income taxes payable and/or receivable are due within one year.

The tax effects of temporary differences that give rise to significant portions of the deferred income tax assets and deferred income tax liabilities are presented below:

Deferred Tax Asset

(thousands of $)

	Provision for unpaid claims	Other	Total
At January 1, 2012 (restated note 4)	$ 458	$ 97	$ 555
Credit (charge) reflected in income tax expense	(3)	25	22
At December 31, 2012 (restated note 4)	455	122	577
Charge reflected in income tax expense	(136)	(3)	(139)
At December 31, 2013	$ 319	$ 119	$ 438

Deferred Tax Liability

(thousands of $)

	Unpaid claims recoverable from reinsurers	Investments	Total
At January 1, 2012	$ 47	$ 10	$ 57
Charge (credit) reflected in income tax expense	15	(5)	10
At December 31, 2012	62	5	67
Charge (credit) reflected in income tax expense	4	(4)	-
At December 31, 2013	$ 66	$ 1	$ 67

The Corporation expects that the deferred tax asset will be realized in the normal course of operations.

14. INSURANCE AND FINANCIAL RISK MANAGEMENT

Insurance risk arises with respect to the adequacy of the Corporation's insurance premium rates and provision for unpaid claims (consisting of underwriting and actuarial risks). The nature of insurance operations also result in significant financial risks, as the Corporation's Statement of Financial Position consists primarily of financial instruments. The financial risks that arise are credit risk, market risk (consisting of interest rate risk, foreign exchange risk and equity price risk) and liquidity risk.

Insurance Risk

Underwriting risk

The Corporation manages its insurance risk through its underwriting and reinsurance strategies within an overall strategic planning process. Pricing is based on assumptions with regards to past experiences and trends. Exposures are managed by having documented underwriting limits and criteria, product and geographic diversification and reinsurance.

Diversification

The Corporation writes property, liability and motor risks over a 12-month period. The most significant risks arise from weather-related events, such as severe summer storms. The Corporation attempts to mitigate risk by offering different lines of insurance products across three Maritime provinces.

The concentration of insurance risk by region and line of business is summarized below by reference to gross premiums written:

	(thousands of $)				
December 31, 2013	Automobile	Personal Property	Commercial Property	Liability	Total
New Brunswick	$ 5,681	$ 1,547	$ 1,468	$ 900	$ 9,596
Nova Scotia	4,112	938	965	592	6,607
Prince Edward Island	7,336	1,398	657	467	9,858
Total	$ 17,129	$ 3,883	$ 3,090	$ 1,959	$ 26,061

	(thousands of $)				
December 31, 2012	Automobile	Personal Property	Commercial Property	Liability	Total
New Brunswick	$ 5,737	$ 1,569	$ 1,359	$ 831	$ 9,496
Nova Scotia	3,616	1,035	869	507	6,027
Prince Edward Island	7,153	1,458	591	436	9,638
Total	$ 16,506	$ 4,062	$ 2,819	$ 1,774	$ 25,161

The concentration of insurance risk by line of business is summarized below by reference to unpaid claims liabilities:

	(thousands of $)					
	Gross		Reinsurance Recoverable		Net	
	2013	2012	2013	2012	2013	2012
Automobile	$ 14,578	$ 12,731	$ 4,120	$ 3,715	$ 10,458	$ 9,016
Personal property	1,581	1,562	(149)	423	1,730	1,139
Commercial property	916	211	299	20	617	191
Liability	2,051	1,773	-	-	2,051	1,773
Facility Association (note 20)	1,651	1,689	-	-	1,651	1,689
PFAD and discounting	788	846	177	168	611	678
Total	$ 21,565	$ 18,812	$ 4,447	$ 4,326	$ 17,118	$ 14,486

The concentration of insurance risk by location is summarized below by reference to unpaid claims liabilities:

	(thousands of $)					
	Gross		Reinsurance Recoverable		Net	
	2013	2012	2013	2012	2013	2012
Prince Edward Island	$ 11,244	$ 10,190	$ 3,730	$ 3,011	$ 7,514	$ 7,179
New Brunswick	7,006	5,957	824	1,048	6,182	4,909
Nova Scotia	3,315	2,665	(107)	267	3,422	2,398
Total	$ 21,565	$ 18,812	$ 4,447	$ 4,326	$ 17,118	$ 14,486

Reinsurance

The Corporation also seeks to reduce losses that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring certain levels of risk with SGI CANADA and other insurers.

The policy of underwriting and reinsuring contracts of insurance limits the liability of the Corporation to a maximum amount on any one loss as follows:

	(thousands of $)	
	2013	2012
General liability and property	$ 500	$ 250
Automobile - liability	500	250
Catastrophe - automobile physical damage	500	500
Catastrophe - other	500	500

While the Corporation utilizes reinsurance, it is still exposed to reinsurance risk. Reinsurance risk is the risk of financial loss due to inadequacies in reinsurance coverage or the default of a reinsurer. The Corporation evaluates and monitors the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvency.

The following table sets out the amount by which reinsurance ceded has reduced the premiums earned, claims incurred, and commissions and premium taxes:

	(thousands of $)	
	2013	2012
Premiums earned	$ 1,858	$ 1,869
Claims incurred	938	3,034
Commissions and premium taxes	165	136

Actuarial Risk

The establishment of the provision for unpaid claims is based on known facts and interpretation of circumstances and is therefore a complex process influenced by a variety of factors. Measurement of the provision is uncertain due to claims that are not reported to the Corporation at the year-end date and therefore estimates are made as to the value of these claims. As well, uncertainty exists regarding the cost of reported claims that have not been settled, as all the necessary information may not be available at the year-end date.

The significant assumptions used to estimate the provision include: the Corporation's experience with similar cases, historical claim payment trends and claim development patterns, the characteristics of each class of business, claim severity and claim frequency, the effect of inflation on future claim settlement costs, court decisions and economic conditions. Time is also a critical factor in determining the provision, since the longer it takes to settle and pay a claim, the more variable the ultimate settlement amount will be. Accordingly, short-tail claims such as physical damage or collision claims tend to be more reasonably predictable than long-tail claims such as liability claims.

As a result, the establishment of the provision for unpaid claims relies on a number of factors, which necessarily involves risk that actual results may differ materially from the estimates.

The following table shows the development of the estimated net provision for unpaid claims relative to the current estimate of ultimate claim costs for the seven most recent accident years as estimated at each reporting date.

	(thousands of $)						
Accident Year	2007	2008	2009	2010	2011	2012	2013
Net ultimate loss							
At end of accident year	$ 6,574	$ 8,427	$ 11,088	$ 11,445	$ 14,434	$ 10,895	$ 13,460
One year later	4,483	6,882	9,868	10,653	13,979	10,736	
Two years later	3,951	6,627	9,234	10,328	13,673		
Three years later	3,907	6,551	8,643	10,348			
Four years later	3,988	6,544	8,582				
Five years later	3,829	6,488					
Six years later	3,913						
Cumulative loss development	$ (2,661)	$ (1,939)	$ (2,506)	$ (1,097)	$ (761)	$ (159)	n/a
Cumulative loss development as a % of original ultimate loss	-40.5%	-23.0%	-22.6%	-9.6%	-5.3%	-1.5%	n/a

	(thousands of $)							
Accident Year	2007	2008	2009	2010	2011	2012	2013	Total
Current estimate of net ultimate loss	3,913	6,488	8,582	10,348	13,673	10,736	13,460	67,200
Cumulative paid	(3,698)	(6,205)	(7,979)	(8,981)	(11,132)	(8,076)	(7,121)	(53,192)
Net provision for unpaid claims for the seven most recent accident years	$ 215	$ 283	$ 603	$ 1,367	$ 2,541	$ 2,660	$ 6,339	$14,008

Net undiscounted claims outstanding for accident years 2006 and prior	457
Facility Association	1,650
Provision for adverse deviation and discounting	611
Gross subrogation recoveries	315
Other reconciling items	77
Net provision for unpaid claims	$ 17,118

The Corporation's estimated sensitivity of its provision for unpaid claims and net income to changes in best estimate assumptions in the insurance contract liabilities is as follows:

(thousands of $)		Change to Net Provision for Unpaid Claims		Change to Net Income	
Assumption	Sensitivity	2013	2012	2013	2012
Discount rate	+100 bps	$ (427)	$ (360)	$ (287)	$ (208)
Discount rate	- 100 bps	427	360	287	208
Net loss ratio	+ 10%	2,464	2,339	(2,464)	(2,339)
Misestimate	1% deficiency	150	126	(150)	(126)

The net provision for unpaid claims refers to the provision for unpaid claims net of unpaid claims recoverable from reinsurers. The method used for deriving this sensitivity information did not change from the prior period.

Financial Risk

The nature of the Corporation's operations result in a Statement of Financial Position that consists primarily of financial instruments. The risks that arise are credit risk, market risk (consisting of interest rate risk, foreign exchange risk and equity price risk) and liquidity risk.

Significant financial risks are related to the Corporation's investments. These financial risks are managed by having a Statement of Investment Policies and Goals (SIP&G), which is approved annually by the Corporation's Board of Directors. The SIP&G provides guidelines to the investment managers for the asset mix of the portfolio regarding quality and quantity of debt, real estate and equity investments using a prudent person approach. The asset mix helps to reduce the impact of market value fluctuations by requiring investments in different asset classes and in domestic and foreign markets. The Corporation receives regular reporting from the investment managers and custodian regarding compliance with the SIP&G. The investment managers' performance is evaluated based on return objectives, including realized and unrealized capital gains and losses plus income from all sources, and goals stated in the SIP&G.

Credit risk

The Corporation's credit risk arises primarily from two distinct sources: accounts receivable (from its customers, brokers and reinsurers) and certain investments.

The maximum credit risk to which the Corporation is exposed is limited to the carrying value of the financial assets summarized as follows:

	(thousands of $)	
	2013	2012
Cash and cash equivalents	$ 2,853	$ 3,739
Accounts receivable	11,347	10,652
Fixed income investments[1]	28,784	25,930
Unpaid claims recoverable from reinsurers	4,447	4,326

[1] Includes short-term investments, bonds and debentures and the mortgage pooled fund

Cash and cash equivalents include money market investments of $980,000 plus cash on hand, net of outstanding cheques of $1,873,000 (2012 - money market investments of $45,000 plus cash on hand, net of outstanding cheques of $3,694,000). The money market investments mature within 90 days from the date of acquisition and have a credit rating of R-1.

Accounts receivable are primarily from customers, diversified among residential and commercial, along with amounts from the Facility Association (note 20) and from brokers. Accounts receivable consist of balances outstanding for one year or less.

	(thousands of $)	
	2013	2012
Current	$ 11,343	$ 10,644
30 - 59 days	7	2
60 - 90 days	1	12
Greater than 90 days	43	46
Subtotal	11,394	10,704
Allowance for doubtful accounts	(47)	(52)
Total	$ 11,347	$ 10,652

Provisions for credit losses are maintained in an allowance account and are regularly reviewed by the Corporation. Amounts are written off once reasonable collection efforts have been exhausted.

Details of the allowance account are as follows:

	(thousands of $)	
	2013	2012
Allowance for doubtful accounts, at January 1	$ 52	$ 49
Accounts written off	(21)	(20)
Current period provision	16	23
Allowance for doubtful accounts, at December 31	$ 47	$ 52

Concentrations of credit risk for insurance contracts can arise from reinsurance ceded contracts as insurance ceded does not relieve the Corporation of its primary obligation to the policyholder. Reinsurers are typically all required to have a minimum financial strength rating of A- at the inception of the treaty; rating agencies used are A.M.Best and Standard & Poor's. Guidelines are also in place to establish the maximum amount of business that can be placed with a single reinsurer.

Credit risk within investments is related primarily to short-term investments, bonds and debentures, and the mortgage pooled fund. It is managed through the investment policy that limits debt instruments to those of high credit quality (minimum rating for bonds and debentures is BBB, and for short-term investments is R-1) along with limits to the maximum notional amount of exposure with respect to any one issuer.

Credit ratings for the bond and debenture investments are as follows:

	(thousands of $)			
	2013		2012	
Credit Rating	Fair Value	Makeup of Portfolio	Fair Value	Makeup of Portfolio
AAA	$ 7,479	34.6%	$ 11,115	45.6%
AA	6,695	30.9%	7,081	29.1%
A	5,399	25.0%	4,996	20.5%
BBB	2,061	9.5%	1,166	4.8%
Total	$ 21,634	100.0%	$ 24,358	100.0%

Within bond and debentures, there are no holdings from one issuer, other than the Government of Canada or a Canadian province, over 10% of the market value of the combined bond and short-term investment portfolios. No one holding of a province is over 20% of the market value of the bond portfolio.

The unit value of the mortgage pooled fund is impacted by the credit risk of the underlying mortgages. This risk is limited by restrictions within its own investment policy, which include single loan limits, diversification by property type and geographic regions within Canada. Each underlying mortgage is secured by real estate and related contracts.

Market risk

Market risk represents the potential for loss from changes in the value of financial instruments. Value can be affected by changes in interest rates, foreign exchange rates and equity prices. Market risk primarily impacts the value of investments.

Interest rate risk

The Corporation is exposed to changes in interest rates in its fixed income investments, including short-term investments, bonds and debentures and the mortgage pooled fund. Changes in interest rates also impact the provision for unpaid claims and unpaid claims recoverable from reinsurers. The impact that a change in interest rates has on investment income will be partially offset by the impact the change in interest rates has on discounting of claims incurred.

It is estimated that a 100 basis point increase/decrease in interest rates would have the following impact:

	(thousands of $)			
	100 basis point increase		100 basis point decrease	
	2013	2012	2013	2012
Investment earnings	$ (714)	$ (568)	$ 714	$ 568
Claims incurred	(427)	(360)	427	360
Net income (loss)	(287)	(208)	287	208

Foreign exchange

The Corporation is subject to changes in the U.S./Canadian dollar exchange rate on its U.S. equity investments, purchases of goods and services that are denominated in U.S. dollars, and a portion of claims and reinsurance receivables and payables denominated in U.S. dollars. Also, the Corporation is exposed to EAFE (Europe, Australasia and Far East) currencies through its investment in the non-North American pooled fund. Exposure to both the U.S. equity and non-North American equity markets is limited to a maximum 6% each of the market value of the total investment portfolio. At December 31, 2013, the Corporation's exposure to U.S. equities, through its U.S. equity pooled fund, was 3.9% (2012 - 2.1%) and its exposure to non-North American equities, through its non-North American equity pooled fund was 3.8% (2012 - 2.2%).

At December 31, 2013, a 10% appreciation/depreciation in the Canadian dollar versus U.S. dollar exchange rate would result in approximately a $128,000 (2012 - $63,000) decrease/increase in net income and retained earnings. A 10% appreciation/depreciation in the Canadian dollar versus the EAFE currencies would result in approximately a $126,000 (2012 - $64,000) decrease/increase in net income and retained earnings. As the U.S. equity pooled fund and the non-North American equity pooled fund are classified as fair value through profit and loss, any unrealized changes due to foreign currency are recorded in net income.

There is no exposure to foreign exchange risk within the Corporation's bond and debenture portfolio. As well, no more than 10% of the market value of the bond portfolio shall be invested in bonds of foreign issuers.

The Corporation's exposure to exchange rate risk resulting from the purchase of goods and services, and claims and reinsurance receivables and payables, are not considered material to the operations of the Corporation.

Equity prices

The Corporation is exposed to changes in equity prices in Canadian, U.S. and EAFE markets through its investment in pooled funds and Canadian common shares. Pooled equity funds and Canadian common shares comprise 12.9% (2012 - 12.1%) of the carrying value of the Corporation's total investments. Individual stock holdings are diversified by geography, industry type and corporate entity. No one investee or related group of investees represents greater than 10% of the market value of the Corporation's investments. As well, no one holding represents more than 10% of the voting shares of any corporation.

The Corporation's equity price risk is assessed using Value at Risk (VaR), a statistical technique that measures the potential change in the value of an asset class. The VaR has been calculated based on volatility over a four-year period, using a 95% confidence level. As such, it is expected that the annual change in the portfolio market value will fall within the range outlined in the following table 95% of the time (19 times out of 20 years).

	(thousands of $)	
Asset Class	2013	2012
Canadian equities	$ +/- 485	$ +/- 810
U.S. equities	+/- 358	+/- 153
Non-North American equities	+/- 377	+/- 208

The Corporation's equity investments are classified as fair value through profit and loss and as such, any unrealized changes in their fair value are recorded in the Statement of Operations.

No derivative financial instruments have been used to alter the effects of market changes and fluctuations.

Liquidity risk

Liquidity risk is the risk that the Corporation is unable to meet its financial obligations as they fall due. Cash resources are managed on a daily basis based on anticipated cash flows. The majority of financial liabilities, excluding certain unpaid claims liabilities, are short-term in nature, due within one year. The Corporation generally maintains positive overall cash flows through cash generated from operations as well as cash generated from its investing activities.

The following summarizes the estimated contractual maturities of the Corporation's financial assets and liabilities at December 31:

(thousands of $)	2013					
	No stated maturity	0 - 6 months	7 - 12 months	1 - 2 years	3 - 5 years	More than 5 years
Financial assets						
Cash and cash equivalents	$ 1,873	$ 980	$ -	$ -	$ -	$ -
Accounts receivable	-	7,070	3,108	302	556	311
Investments	6,644	5,194	885	3,855	16,467	-
Unpaid claims recoverable from reinsurers	-	940	639	922	1,394	375
	$ 8,517	$ 14,184	$ 4,632	$ 5,079	$ 18,417	$ 686
Financial liabilities						
Accounts payable and accrued liabilities	$ 3,985	$ 332	$ -	$ -	$ -	$ -
Notes payable	825	-	-	-	-	-
Amounts due to reinsurers	-	314	-	-	-	-
Provision for unpaid claims	-	4,461	2,737	3,793	6,738	3,048
	4,810	5,107	2,737	3,793	6,738	3,048
Finance lease commitments	-	51	51	103	208	-
	$ 4,810	$ 5,158	$ 2,788	$ 3,896	$ 6,946	$ 3,048

(thousands of $)	2012					
	No stated maturity	0 - 6 months	7 - 12 months	1 - 2 years	3 - 5 years	More than 5 years
Financial assets						
Cash and cash equivalents	$ 3,694	$ 45	$ -	$ -	$ -	$ -
Accounts receivable	-	6,895	2,563	110	491	593
Investments	3,584	3,287	208	2,725	18,741	970
Unpaid claims recoverable from reinsurers	-	938	531	854	1,545	290
	$ 7,278	$ 11,165	$ 3,302	$ 3,689	$ 20,777	$ 1,853
Financial liabilities						
Accounts payable and accrued liabilities	$ 4,116	$ 332	$ 1,191	$ -	$ -	$ -
Notes payable	933	-	-	-	-	-
Amounts due to reinsurers	-	6	-	-	-	-
Provision for unpaid claims	-	3,518	2,277	3,423	6,521	2,227
	5,049	3,856	3,468	3,423	6,521	2,227
Finance lease commitments	-	50	51	205	208	-
	$ 5,049	$ 3,906	$ 3,519	$ 3,628	$ 6,729	$ 2,227

The estimated contractual maturities related to the unpaid claims recoverable from reinsurers excludes the net effect of discounting and PFAD of $177,000 (2012 - $168,000) (note 8). The estimated contractual maturities related to the provision for unpaid claims excludes the net effect of discounting and PFAD of $788,000 (2012 - $846,000) (note 8).

15. CAPITAL MANAGEMENT

The Corporation's primary objectives when managing capital are to ensure adequate funding is available to pay policyholder claims, be flexible in its product offerings and support its growth strategies, while providing an adequate return to its shareholder. Its main sources of capital are retained earnings and share capital. There were no changes to the Corporation's capital structure during the period.

The Corporation uses a common industry measurement, the Minimum Capital Test (MCT), to monitor its capital adequacy. The MCT is a risk-based capital adequacy formula that assesses risks to assets, policy liabilities and off balance sheet exposures by applying various factors to determine a ratio of capital available over capital required.

The Corporation is a regulated insurer, and as such, is subject to rate regulation related to its automobile premiums. Regulators require insurers to maintain a level of capital sufficient to achieve an MCT of 150% or higher based on the risk profile of the insurer and its business. There have been no changes to the Corporation's capital management processes and measures since the prior year-end. The Corporation maintains an MCT greater than 150%.

16. CHANGE IN NON-CASH OPERATING ITEMS

The change in non-cash operating items is comprised of the following:

	(thousands of $)	
	2013	2012 (restated note 4)
Accounts receivable	$ (695)	$ (26)
Deferred policy acquisition costs	(104)	(244)
Reinsurers' share of unearned premiums	(68)	(69)
Unpaid claims recoverable from reinsurers	(121)	(1,069)
Accounts payable and accrued liabilities	(1,322)	2,088
Amounts due to reinsurers	308	(275)
Unearned reinsurance commissions	32	30
Unearned premiums	460	819
Provision for unpaid claims	2,753	(51)
	$ 1,243	$ 1,203

17. EMPLOYEE SALARIES AND BENEFITS

The Corporation incurs salaries and benefits expenses. It allocates expenses incurred to the various operating functions, and has therefore included the various employee salaries and benefits expenses in different line items on the statement of operations, including claims incurred and administrative expenses.

The total salaries and benefits expenses incurred during the year are as follows:

	(thousands of $)	
	2013	2012
Salaries	$ 713	$ 711
Other benefits	88	85
Total salaries and benefits	$ 801	$ 796

18. RELATED PARTY TRANSACTIONS

Included in these financial statements are transactions with various Saskatchewan Crown corporations, ministries, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties"). All transactions are settled at prevailing market prices under normal trade terms. The Corporation has elected to take a partial exemption under IAS 24 *Related Party Disclosures* which allows government related entities to limit the extent of disclosures about related party transactions with government or other government related entities.

The Corporation has direct premiums brokered through Charlie Cooke Insurance Agency Ltd. (CCIA), pays claims adjusting fees to Atlantic Adjusting & Appraisals Ltd. (AAA) and has premiums financed for policyholders administered by Maritime Finance & Acceptance Corporation (MFAC). These companies are affiliated with the minority shareholder, who is a member of the Corporation's senior management. The policies written and the claim adjusting expenses paid are routine operating transactions in the normal course of business.

Transactions and amounts outstanding between the Corporation and CCIA, AAA and MFAC are as follows:

	(thousands of $)	
Category	2013	2012
Accounts receivable	$ 826	$ 844
Accounts payable and accrued liabilities	409	634
Premiums written	14,133	13,862
Claims incurred	846	788
Commissions	2,432	2,598
Premiums financed	13,086	12,274
Administration fees paid to MFAC	210	198

SGI CANADA, the Corporation's ultimate majority shareholder, provides administrative services to the Corporation as well as being one of its reinsurers (note 14). Administrative expenses charged to the Corporation were $1,402,000 (2012 - $1,278,000). Reinsurance ceded to SGI CANADA has reduced premiums earned by $791,000 (2012 - $957,000) and reduced claims incurred by $413,000 (2012 - $2,122,000).

Key management personnel compensation

Key management personnel are those persons having authority over the planning, directing and controlling activities. Certain of the individuals performing these functions are executive employees of the Corporation's parent, SGI CANADA. Compensation for these individuals is paid by SGI CANADA and a portion allocated to the Corporation on the basis of a cost allocation formula.

	(thousands of $)	
	2013	2012
Salaries and other short-term employee benefits	$ 306	$ 273
Post-employment benefits	27	27
	$ 333	$ 300

Other related party transactions are described separately in the notes to the financial statements.

19. NOTES PAYABLE

In 2010, the Corporation issued promissory notes with a par value of $1,146,000 to the primary shareholders in CCIA. The promissory notes were subsequently assigned to the Corporation's parent, SCISL, as consideration in the sale of SCISL's minority interest in CCIA. The promissory notes are demand notes, accruing interest at an annual effective interest rate of 2.25% (2012 - 2.25%). The fair value of the promissory notes approximates their book value.

20. FACILITY ASSOCIATION PARTICIPATION

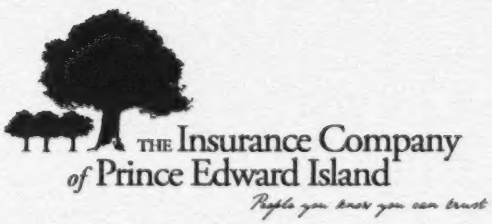
The Corporation is a participant in automobile residual market and risk-sharing pools, whereby companies in the industry are required by regulation to provide automobile insurance coverage to high-risk insureds.

Facility Association transactions recorded in the Corporation's financial results are as follows:

	(thousands of $)	
	2013	2012
Gross premiums written	$ 1,316	$ 1,443
Net premiums earned	$ 1,338	$ 1,377
Claims incurred	685	665
Commissions	100	111
Premium taxes	46	47
Administrative expenses	249	295
Total claims and expenses	1,080	1,118
Underwriting profit	258	259
Investment earnings	73	59
Net income	$ 331	$ 318
Facility Association receivable	$ 2,423	$ 2,351
Unearned premiums	587	609
Facility Association payable	1,980	1,980
Provision for unpaid claims	1,651	1,689

21. CONTINGENCIES

In common with the insurance industry in general, the Corporation is subject to litigation arising in the normal course of conducting its insurance business. The Corporation is of the opinion that this litigation will not have a significant effect on the financial position or results of operation of the Corporation.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